PSC NEWS
Missouri Public Service Commission

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PSC COMMISSION RECEIVES REPORT ON NATURAL GAS PURCHASING

JEFFERSON CITY--More than 95% of Missouri consumers who receive natural gas from a Public Service Commission regulated utility are being served by a company that hedged 50% or more of its normal winter supplies against exposure to market prices this winter. However, these numbers do not reflect the significant disparities in hedging percentages, and the mechanisms used to hedge natural gas supplies. These were some of the findings in a report filed by a working group named by the Public Service Commission to receive detailed information from local natural gas companies on what they have done to soften the impact of rising wholesale natural gas prices this winter.

"The report notes that there are three general categories with respect to hedging performance by natural gas utilities this winter," said Warren Wood, PSC Utility Operations Division Director.

According to the report, on or before November 1, 2005, AmerenUE and Aquila had hedged a high percentage, 80% or more, of their expected heating season needs. Laclede, Atmos and Missouri Gas Energy hedged in the 50% to 60% range. Southern Missouri Gas, Missouri Gas Utility and Fidelity Natural Gas did little or no hedging by November 1, 2005.

"A central question is what is an appropriate hedging strategy?," Wood said. "Joint recommendations in the report are designed to improve the hedging practices of Missouri's local natural gas companies and help to mitigate the impact of changing and potentially higher natural gas prices for consumers in the future," Wood said.

Hedging is described as any method of minimizing the risk of price change through the use of storage and financial instruments such as futures contracts or options to avoid a total reliance on spot market purchases or a market based index.

The report recommends the Commission consider changes to its natural gas price volatility rule in light of the changing condition of the market. The recommendations include:

- Establishing minimum future timeframes over which planned hedging must occur;
- Establishing minimum boundaries for hedging programs unless good cause is shown for any deviations from these minimums;
- Establishing a process whereby natural gas companies provide detailed information to the Commission regarding planned natural gas hedging positions each spring with updates for the coming winter each fall;
- Recognition of appropriate hedging mechanisms that mitigate upward price volatility; and
- Further development of consumer education materials on efficient energy usage.

The report filed with the Commission also looked at Purchased Gas Adjustment rate changes and estimated customer bill impacts.

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